Annual Report
TENNET TSO B.V.
2014

Report by the management board

Key events 2014:

- **Hans Fischer appointed.** J.L.M. (Hans) Fischer joined TenneT Holding's Supervisory Board. Mr Fischer is Chief Technical Officer at Tata Steel Europe and Site Director Tata Steel in IJmuiden;
- **Day-ahead electricity market established.** The South Western and North Western Europe day-ahead electricity markets were successfully coupled in a landmark move towards an integrated European power market. Electricity can now be exchanged from Portugal to Finland under a common day-ahead power price calculation using the Price Coupling of Regions (PCR) solution;
- **Construction Randstad 380 kV North Ring started.** Construction began on the Dutch Randstad 380 kV North Ring project. About 10 km of the 65 km high-voltage connection will be built underground;
- **Offshore grid operator in the Netherlands announced.** The Dutch Minister of Economic Affairs announced its intention to appoint TenneT as the grid developer and operator for the offshore electricity grid connections in the Dutch part of the North Sea. TenneT expects to construct grid connections for offshore wind farms here with a total capacity of 3,450 MW in the years to 2023, in line with the Dutch National Energy Agreement;
- **COBRAcable Dutch-Danish interconnector agreed.** TenneT and its Danish counterpart Energinet.dk gave final approval for the development of COBRAcable. This new, 300 km-long subsea DC electricity connection (interconnector), will directly connect the Dutch and Danish power grids. Completion of the cable is scheduled for early 2019;
- **New Vice-Chairman Executive Board Urban Keussen appointed.** On 1 October 2014, Dr Urban U. (Urban) Keussen (49) became Vice-Chairman of the Executive Board of TenneT Holding and Chairman of the Board of TenneT TSO GmbH. He succeeded Mr Martin Fuchs (60), Fuchs, who retired on 1 July 2014. Since 1 October 2014, Mr Fuchs has been a Member of the Supervisory Council Board of TenneT TSO GmbH;
- **EIB financing Randstad 380 kV completed.** The European Investment Bank and TenneT signed a contract for a EUR 150 million long-term loan, the latest last instalment of a EUR 450 million financing for TenneT Holding B.V. agreed in 2011. The EIB financing supports the construction and operation of Randstad 380 kV, a 83 km, km-long, 380 kV transmission connection in the west of the Netherlands;
- **Agreement with Nature and Environment Foundation signed.** TenneT and 'Stichting Natuur en Milieu' (Nature and Environment Foundation) signed a cooperation agreement for the environmental incorporation of the planned offshore grid in the Dutch North Sea;
- **Official opening of Noordoostpolder 110kV**, providing transport capacity for new windfarms.

Use of underlying financial information

In evaluating the performance of TenneT’s businesses, the assessment of performance and allocation of resources is based on underlying financial information instead of information reported in accordance with IFRS. Underlying financial information is based on the principle to recognise regulatory assets and liabilities in connection with TenneT’s regulated activities whereas IFRS does not permit this. This implies that amounts resulting from past events and which are allowed or required to be settled in future grid tariffs are recorded as an asset or liability, respectively. The concept behind the underlying Financial information is that relevant regulatory revenues and expenses are matched with each other during a corresponding reporting period. TenneT’s Management Board believes that the presentation of underlying financial information leads to a sound, consistent and transparent financial insight into current and future business developments and provides improved insight in the true economic performance of TenneT. TenneT’s Management Board also uses the underlying financial information in communicating financial performance to investors and announcements of financial results. The analysis in this financial report principally focuses on underlying financial information.

The accounting policy on segment reporting is further detailed in note 2.1 of the consolidated Financial statements. Reconciliations of underlying Financial information to reported IFRS financial information can be found in note 2.1 ‘segment reporting’ of the consolidated financial statements.

Key underlying figures 2014
Key underlying figures are summarised in the table below. TenneT's management evaluates the performance of the business primarily based on earnings before interest and taxes ('EBIT'). Financing activities (including finance income and expenses) and income taxes are managed by the parent company and are further evaluated in the consolidated financial statements of the parent company which are based on the reported IFRS figures.

Key underlying figures *(in EUR million)*	**2014**	**2013**	Change	Change in %
Revenues	653	643	10	1.6%
Operating expenses	-529	-494	-35	7.1%
EBIT	124	149	-25	-16.8%
Assets	3,856	3,737	119	3.2%
Liabilities	2,457	2,420	37	1.5%
Equity	1,399	1,317	82	6.2%

Increase in revenue (underlying)
Total underlying revenue increased by 1.6% to EUR 653 million in 2014 (2013: EUR 643 million). Extraordinary expansion investments ('uitbreidingsinvesteringen') in the Netherlands resulted in EUR 14 million of additional revenue in 2014. Other factors contributing to the revenue increase in the Netherlands were price indexation and other effects (total effect minus EUR 4 million).

Increase in operating expenses (underlying)
Grid expenses increased by EUR 13 million, personnel expenses decreased by EUR 16 million and depreciation increased by EUR 21 million. The remainder results from many small items.

Earnings Before Interest and Taxes (underlying)
Notwithstanding the higher permitted regulated revenue, the increase in operating expenses resulted in a decrease of the underlying EBIT of EUR 25 million.

Financial position (underlying)
Assets
Total underlying assets as at 31 December 2014 were EUR 0.1 billion higher than as at 31 December 2013. Total underlying assets increased mainly due to an increase in tangible fixed assets of EUR 0.1 billion.

Liabilities
Underlying liabilities remain stable compared to 2013.

Equity
Total equity was impacted only by the result for the year.

Cash flows (reported)

The consolidated cash flows can be summarised as follows:

Consolidated cash flows *(in EUR million)*	**2014**	**2013**	Change	Change in %
Net cash flows from operating activities	190	425	-263	-62%
Net cash flows used in investing activities	-255	-325	98	30%
Net cash flows from financing activities	60	-96	156	162%
Net change in cash and cash equivalents	**-5**	**4**	**-9**	**-225%**

Cash flows from operating activities in 2014 were impacted by the Stedin Zuid Holland 150 kV acquisition. The remainder was caused by multiple developments. We refer to the consolidated statement of cash flows for further details.

Decreased investing cash outflows originated almost entirely from decreased capital expenditures. Increased cash inflows from financing activities relates to grid investments and lower interest payments in 2014.

Funding
TenneT TSO B.V. is financed by TenneT Holding B.V. (the Holding) with a long term credit facility; the maximum of this facility has not been defined. The facility matures after 10 years and is automatically extended every year for another year, unless agreed upon otherwise. The conditions include a cross default clause. TenneT aims to have a capital structure which is in line with the risk profile of its (predominantly regulated) activities and with the economic useful lives of its assets. To maintain ample access to a wide range of financing options and consistent with government policy and regulatory assumptions, the Holding is committed to maintaining a senior unsecured long-term credit rating of at least A3/A-. In addition, the Holding strives to have sufficient liquidity, consisting of cash and credit lines to cover the expected net cash outflow for the next 12 months on a rolling basis for all of its subsidiaries.

Risks
The financial risk management for TenneT TSO is executed by the Treasury department of TenneT Holding B.V. The main treasury risks TenneT TSO recognizes are: market risk, credit risk, liquidity risk and refinancing risk. For further details of these risks reference is made to Chapter 3 of the financial statements

Outlook
TenneT faces a very sizable investment programme, currently estimated to amount to approximately EUR 6.4 billion over the next 10 years. These investments mainly involve new connections triggered primarily by large-scale conventional electricity production capacity in a number of favourably situated coastal locations in the Netherlands. TenneT expects to continue to have a significant need for capital during the coming years. Despite the investment programme we expect a stable average workforce. The method decision for the sixth regulatory period (2014-2016) has a negative impact on the expected EBIT for the following years.

Laws and regulation

Composition of the executive board
TenneT's Executive Board consists of people with diverse experiences, skills and knowledge. TenneT values this diversity and believes it contributes positively to the way situations are assessed and decisions are made. TenneT is aware that women are currently underrepresented in the Executive Board and takes this into account for new appointments by making gender one of the assessment criteria and by a focussed search for qualified female candidates. When multiple qualified candidates are available, the candidate that contributes to a more equal division in gender will in principle be preferred. In 2014, in the search for a new Vice Chair of the Executive Board, we applied the assessment criteria, but this did not lead to the appointment of a female candidate. For future appointments, TenneT will continue its current approach and will make serious efforts to comply with the gender equality targets as described in the Dutch law and as set by the European Commission, to ensure a more equal gender representation in the Executive Board by 2020.

Report in accordance with article 18 paragraph 3 of the electricity act 1998.
The relationship between TenneT TSO B.V. and its related parties within the Tennet Holding Group is compliant with the requirements of article 18 paragraph 1 of the electricity act 1998. The related parties perform the activities the transmission system operator is not allowed to in accordance with article 17a of the electricity act 1998. This implies TenneT TSO B.V. does not provide benefits to group companies which are not awarded to third parties nor does it provide group companies with other benefits exceeding normal trade practice.

The following items are considered as benefits to group companies or awarding benefits exceeding normal trade practice:
- Providing a group company with data relating to customers, not being customers as included in article 95a paragraph 1 of the electricity act 1998, who have made a request as meant in article 23 or 24 of the electricity act 1998;
- Providing goods or services to a group company at a price lower than the reasonably attributable costs; or
- Allowing the use of the name and logo of the transmission system operator in a way that could confuse the public regarding the origin of goods and services.

FINANCIAL STATEMENTS
TENNET TSO B.V.
2014

These financial statements comprise:

- Consolidated statement of comprehensive income
- Consolidated statement of financial position
- Consolidated statement of changes in equity
- Consolidated statement of cash flows
- Notes to the consolidated financial statements
- Company statement of income
- Company statement of financial position
- Company statement of changes in equity
- Notes to the company financial statements

To the financial statements have been added:

- Appropriation of profit
- Events after the reporting period
- Independent auditor's report

Consolidated statement of comprehensive income

For the year ended 31 December

(in EUR million)

	Note	2014		2013	
Revenue	4.1		**744**		**834**
Operating expenses					
Grid expenses	4.2.1	246		233	
Personnel expenses	4.2.2	82		98	
Depreciation and amortisation of assets	5.1, 5.2	162		141	
Other operating expenses	4.2.3	49		38	
Other (gains)/losses		-		-	
Total operating expenses			**539**		**510**
Share of result from associates and joint ventures	5.3		1		-
Operating profit			**206**		**324**
Finance income	4.3	13		33	
Finance expenses	4.3	-21		-51	
Finance result			**-8**		**18**
Profit before income tax			**198**		**306**
Income tax expense	4.4		49		83
Profit for the year			**149**		**223**
Other comprehensive income (net of tax)			**-**		**-**
Total comprehensive income (net of tax)			**149**		**223**

Both profit for the year as well as total comprehensive income are fully attributable to Equity holders of the company.

Consolidated statement of financial position

(in EUR million)

Assets	Note	2014	2013
Non-current assets			
Tangible fixed assets	5.1	3,101	2,939
Intangible assets	5.2	76	75
Investments in associates and joint ventures	5.3	13	12
Other financial assets	5.4	375	375
Total non-current assets		**3,565**	**3,401**
Current assets			
Inventories		5	5
Accounts- and other receivables	5.5	199	133
Financial assets	5.8	12	51
Cash and cash equivalents	5.6	39	44
		255	233
Assets classified as held for sale		-	3
Total current assets		**255**	**236**
Total assets		**3,820**	**3,637**

Consolidated statement of financial position

(in EUR million)

Equity and liabilities	Note	2014	2013
Total Equity	5.7	**2,163**	**2,014**
Non-current liabilities			
Borrowings	5.9	958	862
Deferred income	5.10	140	151
Deferred tax liability	4.4	247	224
Provisions	5.11	16	13
Total non-current liabilities		**1,361**	**1,250**
Current liabilities			
Account- and other payables	5.12	127	145
Other financial liabilities		38	37
Provisions	5.11	131	191
Total current liabilities		**296**	**373**
Total equity and liabilities		**3,820**	**3,637**

Consolidated statement of changes in equity

(in EUR million)

	Note	Paid-up and called-up capital	Share premium reserve	Retained earnings	Unappropriated result	**Total Equity**
		5.7	*5.7*	*5.7*		
Balance at 1 January 2013		**100**	**600**	**1,042**	**79**	**1,821**
Total comprehensive income		-	-	-	223	223
Dividends paid	5.7	-	-	-	-30	-30
Appropriation remaining prior year profit		-	-	49	-49	-
Balance at 31 December 2013		**100**	**600**	**1,091**	**223**	**2,014**
Total comprehensive income		-	-	-	149	149
Appropriation prior year profit		-	-	223	-223	-
Balance at 31 December 2014		**100**	**600**	**1,314**	**149**	**2,163**

Consolidated statement of cash flows for the year 2014 (in EUR million)

	Note	2014		2013	
Operational activities					
Profit for the year			**149**		**223**
Non-cash adjustments to reconcile profit to net cash flows:					
Depreciation, amortisation and impairment of assets	5.1, 5.2	162		141	
Finance income	4.3	-13		-33	
Finance expenses	4.3	21		51	
Income tax expense	4.4	23		83	
Share of result of associates and joint ventures	5.3	-1		1	
Increase in deferred income	5.10	-15		29	
Movements in provisions and other (financial) liabilities and Assets	5.11	1		12	
			178		**284**
Working capital adjustments:					
(Increase)/decrease in trade and other receivables		14		-44	
(Increase)/decrease in trade and other receivables related to acquisition of 'CBL grid Stedin Zuid Holland'		-80		-	
(Increase)/decrease in inventories		-		-1	
(Increase)/decrease in provisions		-58			
Increase/(decrease) in trade and other payables		-14		21	
Increase/(decrease) in other current (financial) liabilities		1		-58	
			-137		**-82**
Net cash flows from operating activities			**190**		**425**
Investment activities					
Purchase of tangible and intangible fixed assets	5.1, 5.2	-307		-342	
Proceeds from sale of tangible and intangible fixed assets		-		2	
Contributions to current financial assets	5.8	-12		-51	
Proceeds from repayment of current financial assets	5.8	51		33	
Interest received		13		33	
Net cash flows used in investing activities			**-255**		**-325**
Financing activities					
Proceeds from borrowings	5.9	96		-	
Interest paid		-36		-66	
Dividends paid to equity holders of the company		-		-30	
Net cash flows from financing activities			**60**		**-96**
Net change in cash and cash equivalents			**-5**		**4**
Cash and cash equivalents at 31 December	5.6	39		44	
Cash and cash equivalents at 1 January	5.6	44		40	
			-5		**4**

1 Corporate information

General

The consolidated financial statements of TenneT TSO B.V. and its subsidiaries (hereafter referred to as "TenneT" or "the Group") for the year ended 31 December 2014 were authorised for issue on 10 March 2015.

As an electricity transmission system operator (TSO), TenneT's principal tasks are to provide (1) power transmission services, by constructing and maintaining a robust high-voltage grid and (2) system services, by maintaining the balance between supply and demand of electricity 24 hours a day, 7 days a week and (3) facilitating the market in order to have a liquid, stable electricity market with prices in line with the surrounding countries.

These activities are governed by the provisions of relevant legislation in the Netherlands. Regulatory authorities oversee TenneT's compliance with these provisions.

TenneT Holding B.V. holds the entire issued share capital of TenneT TSO B.V. The head office (and legal seat) is located at Utrechtseweg 310, 6800 AS Arnhem.

General basis for preparation

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union and with part 9, Book 2 of the Netherlands civil code.

The consolidated financial statements are presented in euros and all values are rounded to the nearest million (€ ,000,000), except when otherwise indicated.

The preparation of the financial statements in conformity with IFRS requires use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed further in this chapter.

Basis for consolidation

The consolidated financial statements comprise the financial statements of the TenneT TSO B.V. and its subsidiaries as at 31 December 2014.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intercompany balances, transactions, unrealised gains and losses resulting from intercompany transactions and dividends are eliminated in full.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group ceases to have control over a subsidiary, it derecognises the assets (including goodwill) and liabilities of the subsidiary, any non-controlling interest and the cumulative translation differences recorded in equity. Furthermore, the Group recognises the fair value of the consideration received, the fair value of any investment retained, and any surplus or deficit in profit or loss.

The following legal entities are included in the consolidation:

	Share of capital held
TenneT TSO B.V., Arnhem	
• CertiQ B.V., Arnhem	(100%)
• Saranne B.V., Arnhem	(100%)**
• B.V. Transportnet Zuid-Holland, Voorburg	(100%)**
• HS Netten Zeeland B.V., Middelburg	(100%)**
• Nadine Netwerk B.V., Arnhem	(100%)**
• TenneT TSO E B.V., Arnhem	(100%)**
• Stichting Beheer Doelgelden Landelijk Hoogspanningsnet, Arnhem	(0%)*

* The consolidation includes Stichting Beheer Doelgelden Landelijk Hoogspanningsnet (hereafter 'the Foundation'). The Foundation temporarily manages the funds arising from maintenance of the energy balance and auctioning by TenneT TSO

B.V. TenneT can exercise direct control over its management and financial- and operational policy, consequently the Foundation is included in the consolidation of the Group.

** For these companies TenneT TSO B.V. has issued a declaration of liability as referred to in Book 2, Part 9, Section 403 of the Netherlands Civil Code.

Significant accounting judgments, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Areas of judgment and estimates that need to be made by management mainly relate to the useful lives of non-current assets (notes 5.1 and 5.2), the impairment review of non-current assets (notes 5.1 and 5.2) and the establishment of provisions (note 5.11). Estimates are based on historical quoted market prices, experience and other assumptions that are considered reasonable under the relevant circumstances.

2 Segment reporting

2.1 Accounting policies applied for 'underlying' financial information

TenneT's Management Board believes that the presentation of underlying financial information leads to a sound, consistent and transparent financial insight into current and future business developments.

2014 *(in EUR million)*	**TenneT TSO IFRS**	**Adjustments to underlying**	**TenneT TSO Underlying Information**
Assets	**3,820**	**36**	**3,856**
Liabilities	1,657	800	2,457
Equity	2,163	-764	1,399
Equity and liabilities	**3,820**	**36**	**3,856**
Revenue	744	-91	653
Depreciation and amortisation	162	-9	153
Other costs	376	-	376
EBIT	**206**	**-82**	**124**

2013 *(in EUR million)*	**TenneT TSO IFRS**	**Adjustments to underlying**	**TenneT TSO Underlying Information**
Assets	**3,637**	**100**	**3,737**
Liabilities	1,623	797	2,420
Equity	2,014	-697	1,317
Equity and liabilities	**3,637**	**100**	**3,737**
Revenue	834	-191	643
Depreciation and amortisation	141	-9	132
Other costs	369	-7	362
EBIT	**324**	**-175**	**149**

As described earlier, the financial information presented in the segment information and board report is based on 'underlying' financial information, which differs from IFRS. The accounting principles applied differ from IFRS with respect to the recognition of regulated assets, regulated liabilities and auctions receipts. No other differences between 'underlying' financial information and IFRS are applicable.

Main requirement for the recognition of regulatory assets/liabilities in 'underlying' financial information is that a current regulatory framework must be in place that includes the future reimbursement/settlement of the respective regulated asset/liability. Consequently, a regulated asset is recognised in 'underlying' financial information for future reimbursements of current year expenses in future years. Vice versa, a regulated liability is recognised in 'underlying' financial information for future settlements of current year revenues in future tariffs. Taken together, regulatory revenues and expenses are matched with each other during a corresponding reporting period.

Furthermore, auction receipts resulting from auctioning the available capacity on the cross-border connections are recognised as liability in 'underlying' financial information, whereas under IFRS these auction receipts are recognised as revenue. In 'underlying' financial information the auction receipts are initially valued at fair value and subsequently measured at amortised cost using the effective interest method. Investments made out of the auction proceeds are, after approval from the regulator is obtained, classified as investment contributions included under ‘Liabilities’. An annual amount equal to the depreciation charges, plus a portion of the operating expenses, is released to the statement of income.

For management purposes TenneT management considers the performance of its activities in the Netherlands as a single operating segment. The operating results of this segment are monitored for the purpose of making decisions about resource allocation and performance assessment. The performance is evaluated based on earnings before interest and tax ('EBIT').

The accounting principles used for the segment reporting differ from those applied in the consolidated financial statements and mainly relate to the fact that in the underlying financial information relevant regulatory revenues and expenses are matched with each other during a corresponding reporting period.

3 Financial risk management

TenneT’s policy is aimed at effective cash flow management and safeguarding the Group's equity against financial risks.

3.1 Risks associated with clearing transactions

TenneT TSO B.V. is responsible for maintaining the balance between supply and demand of energy. The associated costs are covered by income from parties with programme responsibility, which are billed for any imbalances attributable to them. Any surplus is deducted from the tariffs for system services. For certain situations, securities in the form of bank guarantees and collaterals are held as protection against default by the parties with programme responsibility.

3.2 Treasury risk

It is TenneT’s policy to minimise the treasury risks that are inherent to its operations. The main treasury risks recognised by TenneT are market risks, credit risks, liquidity risks and refinancing risks. The Corporate Treasury department is responsible for managing the Group’s financial risks.

Funds that may only be released with the approval of the Authority Consumer and Markets are kept legally separate from funds resulting from operational activities. The funds from auction receipts and maintenance of the energy balance, which are not at free disposal, are managed by the Foundation for the Management of Allocated Funds from the National High-Voltage Grid.

TenneT’s Treasury Regulations and the Management and Investment Regulations of the aforementioned Foundation, which have been approved by the Supervisory Board of TenneT Holding B.V., prescribe a framework and set limitations for the activities of the Treasury Department.

Use of all ordinary course financial instruments is permitted, provided these are used solely to cover positions. Any speculative use of financial instruments is expressly not authorised.

3.2.1 Market risk

The main market risk to which TenneT is exposed is interest risk. In addition, TenneT is exposed to a very limited foreign currency risk and regulated energy price risk.

Interest rate risk
The interest rate risk to which TenneT is exposed is defined as the risk that the interest payable on liabilities incurred exceeds the interest receivable by TenneT under the prevailing regulatory system. The Authority Consumer and Markets has set the relevant interest rate at 3.85% for the 2014-2016 regulatory period.

TenneT TSO is financed almost entirely through intercompany loans from the parent company. The interest cost of the intercompany loans, as disclosed in note 5.9, depends on the external financing cost of the parent company. To manage the Group's interest rate risk, it is the parent company’s policy to ensure that the majority of its loan portfolio is based on fixed interest. This is then also of influence on the interest charged to TenneT TSO. TenneT uses scenarios to analyse its interest rate exposure. A theoretical increase or decrease in interest rates of 200 basis points results in an increase or decrease of EUR 0.3 million in the net interest costs (2013: EUR 7.4 million). There is limited interest risk since the majority of the portfolio is based on fixed interest rates.

Foreign currency risk
TenneT is only exposed to limited foreign currency risk, as most of its activities take place within the Eurozone. It is TenneT’s policy to cover foreign currency transaction risks as much as possible. The exchange rate risks associated with participating interests in the equity of subsidiaries are not covered. These risks are deemed to be inherent in doing business in countries outside the Eurozone.

Regulated energy price risk
For the Dutch 2014-2016 regulatory period, the Authority Consumer and Markets uses incentive regulation for the costs related to the purchase of ancillary services (grid losses, congestion management, power reserve and black start). The exposure of TenneT TSO B.V. for the purchase of ancillary services is maximised to 5% of the involved budget.

3.2.2 Credit risk

TenneT has a policy for the management of its credit risks. Credit risks arise from TenneT's transactions and positions with financial institutions. On the balance sheet date, the maximum credit risk amounted to EUR 1 million (2013: EUR 7 million). The credit risk on trade receivables is very limited as all credit risks are compensated in future tariffs.

TenneT has concentration limits in place when funds are placed on deposit or when financial derivatives are arranged. The counterparty must have an 'A-' credit rating or higher (2013: 'A-'). On the balance sheet date, TenneT had deposited EUR 12 million with third parties (2013: EUR 51 million).

3.2.3 Liquidity risk

Liquidity risk is defined as the risk that TenneT cannot meet its short-term financial obligations. TenneT TSO B.V. is financed by TenneT Holding B.V. with a long term credit facility. The maximum of this facility has not been defined. The facility matures after 10 years and is automatically extended every year for another year, unless agreed upon otherwise. As such, the liquidity risk is managed by the parent company of Tennet TSO B.V. The parent company has credit facilities at its disposal to accommodate any fluctuations. The scope of these credit facilities is such that any adverse financial developments and events at TenneT TSO B.V. can be accommodated and continuation of day-to-day operations is ensured. The terms and conditions of these credit facilities include negative pledge and pari passu clauses. No security has been provided. The facilities all have floating-rate interest conditions.

The following maturity schedule presents TenneT's financial obligations at 31 December 2014 and 31 December 2013 on a non-discounted basis, using five maturity intervals.

Maturity schedule (in EUR million)

31 December 2014	**<1M**	**1M<3M**	**3M<1Y**	**1-5Y**	**>5Y**	**Total**
Liabilities relating to assets at free disposal						
Borrowings	3	6	29	155	1,076	1,269
Accounts payable and other liabilities, excluding interest payable	113	-	14	-	-	127
Other financial liabilities	38	-	-	-	-	38
	154	6	43	155	1,076	1,434
Total						

Maturity schedule (in EUR million)

31 December 2013	**<1M**	**1M<3M**	**3M<1Y**	**1-5Y**	**>5Y**	**Total**
Liabilities relating to assets at free disposal						
Borrowings	3	6	30	157	936	1,132
Accounts payable and other liabilities, excluding interest payable	128	-	17	-	-	145
Other financial liabilities	37	-	-	-	-	37
Total	**168**	**6**	**47**	**157**	**936**	**1,314**

From the maturity schedule for 2014, it can be concluded that TenneT is exposed to liquidity risk on the balance sheet date. TenneT expects to meet the obligations for the coming year with the current cash and cash equivalents and unused credit facilities.

3.2.4 Refinancing risk

Refinancing risk is defined as the risk that funds cannot be obtained under reasonable conditions on the money or capital market when existing financing arrangements expire. In 2014 TenneT TSO B.V. has no significant refinancing risk as the company is financed with intercompany loans from TenneT Holding B.V. with a 10 years maturity, annually rolled forward with a year unless agreed upon otherwise.

3.2.5 Capital Risk Management and Liquidity Risk Management

Capital Risk Management
The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern while providing an adequate return for its shareholder. In order to maintain or adjust the capital structure, the Group may seek for additional capital (e.g. through a capital injection by the shareholder and/or various capital market transactions excluding an (partial) initial public offering), adjust dividends paid to its shareholder or modify its investment plans if possible.

Consistent with the perspective of Standard&Poor's and Moody's, the Group monitors capital on the basis of the funds from operations to net debt ratio.

During 2014, the Group's financial strategy, which was unchanged from 2013, was to maintain funds from operations to net debt ratio of at least 0.08, based on underlying financial information. For details on underlying financial information reference is made to chapter 2 Segment reporting. During 2014 the Group met the funds from operations to net debt ratio.

Liquidity Risk Management
The Group's objective when managing liquidity is to be able to meet its short-term obligations at all times. The Group monitors liquidity of the Group on a rolling 12-month basis. This means that the sum of (i) cash and cash equivalents and (ii) undrawn credit facilities made available by TenneT Holding B.V. and (iii) 12-month net cash flow from operating activities (assuming this amount is positive) should be sufficient to meet the expected aggregate of scheduled debt repayments and investments in fixed assets over the next 12 months. This test was positive in both 2014 and 2013.

3.2.6 Financial instruments – Fair values

Set out in the table below is a comparison by class of the carrying amounts and fair value of the Group's financial instruments that are carried in the financial statements.

		Carrying amount		Fair value		
(in EUR million)	Note	2014	2013	2014	2013	Hierarchy
Financial Assets						
Loans and receivables:						
- Account- and other receivables	5.5	199	133	199	133	Level 3
- (Other) Financial assets	5.8	387	426	387	426	Level 3
Cash and cash equivalents	5.6	39	44	39	44	Level 1
		625	**603**	**625**	**603**	
Financial Liabilities						
Borrowings:						
- Borrowings	5.9	958	862	971	872	Level 3
- Account- and other payables	5.12	127	145	127	145	Level 3
- Other financial liabilities	5.8	38	37	38	37	Level 3
		1,123	**1,044**	**1,136**	**1,054**	

The Group concluded that the fair value of the loans and receivables, cash and cash equivalents, account- and other payables and other financial liabilities approximate their carrying amounts due to the short-term maturities of these instruments. There have been no transfers between the fair value hierarchy levels.

Fair value hierarchy
As at 31 December 2014 TenneT holds no financial instruments valued at fair value. TenneT uses the following hierarchy for determining the fair value of financial instruments by valuation technique:
Level 1: Measurement based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2: Measurement based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)
Level 3: Measurement based on inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

4. Items of the consolidated statements of income

4.1 Revenue

Revenue can be broken down as follows:

(in EUR million)	**2014**	**2013**
Connection and transmission services	432	427
System services	106	142
Maintenance of energy balance	37	67
Operation of energy exchanges	144	166
Other	25	32
Total	**744**	**834**

Connection, transmission and system services
The revenue from connection, transmission and system services is to a large extent regulated by the Authority Consumer and Markets in the Netherlands. The revenue from connection and transmission services includes the revenue from services provided to regional grid operators and industrial clients (resolution of transmission restrictions and reactive power management).

Revenue includes an assessment of unbilled connection and transmission services supplied to customers for the month December. This assessment is based on historical consumption over the relevant period.

Maintenance of energy balance
This amount includes the revenue from maintenance of the energy balance between supply and demand.

Operation of energy exchanges
This amount includes auction revenues consisting of auctioning cross-border interconnection capacity.

4.2. Operating expenses

4.2.1 Grid expenses

Expenses for the purchase of energy and capacity can be broken down as follows:

(in EUR million)	**2014**	**2013**
Connection and transmission services	67	74
System services	74	55
Maintenance of energy balance	25	37
Costs of maintaining and operating transmission grids	88	66
Systems for primary operating processes	-8	1
Total	**246**	**233**

Connection and transmission services
The expenses associated with the provision of connection and transmission services relate to purchases for grid losses, transmission restrictions and reactive power.

System services
The expenses associated with system services involve the purchase of regulating and reserve capacity, black-start facilities and emergency capacity.

Maintenance of energy balance
This amount comprises of the costs from maintenance of the energy balance between the supply and demand of electricity.

4.2.2 Personnel expenses

Personnel expenses can be broken down as follows:

(in EUR million)	2014	2013
Salaries	87	83
Social security contributions	9	9
Pension charges defined contribution plans	12	12
Hiring of temporary personnel	15	21
Other personnel expenses	4	4
Capitalised costs for tangible fixed assets	-45	-31
Total	**82**	**98**

In 2014, the average workforce amounted to 1,157 FTEs (2013: 1,110 FTEs). All FTEs were employed in the Netherlands.

Key management remuneration
The members of the Management Board of the company are regarded as key management. The remuneration paid to the members of the Management Board is summarised below.

In EUR thousand	Fixed remuneration	Variable remuneration	Pension contributions	Total
2014	537	145	156	**838**
2013	459	101	134	**694**

Remuneration paid to members of the Management Board in respect of supervisory directorships in affiliated entities accrues to the company.

Pension charges defined contribution plans
In 2015 Tennet expects to contribute EUR 18 million to the multi-employer scheme administered by the ABP Pension Fund. In 2008 the funding ratio in of the ABP pension fund deteriorated, consequently ABP introduced a recovery plan in 2009. In accordance with this recovery plan ABP evaluates the progress of the recovery at the start of each year. Progress is measured by means of the actual funding ratio at the end of the preceding year. ABP’s funding ratio as at 31 December 2014 was 101.1% (2013: 105.9%).

4.2.3 Other operating expenses

Other operating expenses can be broken down as follows:

(in EUR million)	2014	2013
Accommodation and office expenses	18	13
Consultancy expenses	7	5
Travel and subsistence expenses	9	8
Other operating expenses	15	12
	49	**38**

Independent auditor’s fees are classified under ‘Other operating expenses’. For 2014 this concerns the fees charged by Ernst & Young Accountants LLP and other EY network firms regarding assurance of EUR 462k (2013: EUR 462k).

4.3 Finance income and expenses

Finance income
Finance income can be broken down as follows:

(in EUR million)	2014	2013
Interest from participations	8	8
Interest from Shareholder	3	23
Other interest income	2	2
Finance income	**13**	**33**

Finance expenses
Finance expenses can be broken down as follows:

(in EUR million)	2014	2013
Interest expenses borrowings Shareholder	34	64
Interest on assets under construction	-15	-15
Other interest expenses	2	2
Finance expenses	**21**	**51**

For the effective rate of interest on assets under construction and interest on long-term loans, reference is made to note 5.1 respectively 5.9.

4.4 Income Tax

TenneT TSO B.V. forms a fiscal unity with TenneT Holding B.V. regarding income tax. TenneT TSO B.V. has recognised income tax as if the company is solely liable for income tax.

The major components of income tax expense are:

Consolidated income statement

(in EUR million)	2014	2013
Current income tax:		
Current income tax charge	26	36
Adjustments in respect of current income tax of previous years	-	-
Deferred tax:		
Relating to origination and reversal of temporary differences	23	47
Income tax expense reported in the income statement	**49**	**83**

A reconciliation between tax expense and the accounting profit multiplied by the domestic tax rate is as follows:

(in EUR million)	2014	2013
Accounting profit before income tax	**198**	**306**
At statutory income tax rate of 25% (2013: 25%)	49	77
Adjustments in respect of current income tax of previous years	-	6
Non-taxable income / Non-deductable expenses for tax purposes	-	-
At the effective income tax rate of 25.0% (2013: 27.1%)	**49**	**83**

Deferred tax relate to the following:

(in EUR million)	Statement of financial position		Statement of income	
	2014	**2013**	**2014**	**2013**
Auction receipts	-180	-166	14	49
Investment contributions	-78	-75	2	-3
Tariffs to be settled	24	37	13	9
Accelerated depreciation for tax purposes	-17	-23	-6	-10
Provisions recognised for tax purposes	3	3	-	2
Receivables and payables	-	-	-	-
Other	1	-	-	-
Deferred tax expense/(income)			**23**	**47**
Net deferred tax assets/(liabilities)	**-247**	**-224**		

Reconciliation of net deferred tax liabilities

(in EUR million)	**2014**	**2013**
Opening balance as of 1 January	**-224**	**-177**
Tax income/(expense) during the period recognised in profit or loss	-23	-47
Closing balance as at 31 December	**-247**	**-224**

The Group offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred assets and deferred liabilities relate to income taxes levied by the same tax authority. The group does not have any tax loss carry forwards.

5. Items of the consolidated statement of financial position

5.1 Tangible fixed assets

(in EUR million)	High-voltage substations	High-voltage connections	Other assets	Assets under construction	Total
Cost					
At 1 January 2013	1,440	1,635	115	536	3,726
Additions	-	-	1	340	341
Transfers	16	198	42	-256	-
Disposals	-	-2	-	-	-2
At 31 December 2013	**1,456**	**1,831**	**158**	**620**	**4,065**
Additions	-	-	-	298	298
Transfers	162	122	51	-335	-
Transfers from assets held for sale	5	-	-	-	5
Disposals	-	-	-6	-	-6
At 31 December 2014	**1,623**	**1,953**	**203**	**583**	**4.362**
Depreciation and impairment					
At 1 January 2013	489	467	52	-	1,008
Depreciation for the year	53	59	8	-	120
Transfers	-20	20	-	-	-
Impairment	-	-2	-	-	-2
At 31 December 2013	**522**	**544**	**60**	**-**	**1,126**
Depreciation for the year	61	64	14	-	139
Transfers from assets held for sale	2	-	-	-	2
Disposals	-	-	-6	-	-6
At 31 December 2014	**585**	**608**	**68**	**-**	**1,261**
Net Book value:					
At 1 January 2013	951	1,168	63	536	2,718
At 31 December 2013	934	1,287	98	620	2,939
At 31 December 2014	1,038	1,345	135	583	3,101

High-voltage substations include transformers. High-voltage connections consist of overhead and underground connections, insofar as they are owned by TenneT. TenneT does not own the land surrounding its high-voltage pylons and cables. Other tangible fixed assets consist of office buildings, office ICT equipment and other company assets.

Capitalised borrowing costs

The amount of borrowing costs capitalised during the year ended 31 December 2014 was EUR 15 million (2013: EUR 15 million). The effective interest rate used to determine the amount of borrowing costs eligible for capitalisation was 3.8% (2013: 3.8%).

5.2 Intangible assets

The carrying value of the intangible assets can be specified as follows:

(in EUR million)	Software	Telecom contracts	Goodwill	Other Intangible assets	Total
Cost:					
At 1 January 2013	75	64	3	14	156
Additions	14	-	-	-	14
At 31 December 2013	**89**	**64**	**3**	**14**	**170**
Additions	23	-	-	1	24
At 31 December 2014	**112**	**64**	**3**	**15**	**194**
Amortisation and impairment					
At 1 January 2013	54	18	-	2	74
Amortisation for the year	16	5	-	-	21
At 31 December 2013	**70**	**23**	**-**	**2**	**95**
Amortisation for the year	17	5	-	1	23
At 31 December 2014	**87**	**28**	**-**	**3**	**118**
Net Book value:					
At 1 January 2013	21	47	3	11	82
At 31 December 2013	19	41	3	12	75
At 31 December 2014	25	36	3	12	76

5.3 Investments in associates and joint ventures

The group holds a 50% joint venture in Reddyn B.V. which is immaterial to the group.

The investments in associates mainly consist of a 24.5% interest in Holding des Gestionnaires de Réseaux de Transport d'Électricité S.A.S. (hereafter 'HGRT'). HGRT is legally seated in Paris, France and its sole activity is holding a 53% interest Powernext S.A.

In addition, the group holds an immaterial investment in Energie Data Services Nederland (EDSN) B.V.

In 2014 TenneT did not receive dividend from its associates and joint ventures (2013: nil).

5.4 Other Financial assets

The other financial assets can be detailed as follows:

(in EUR million)	2014	2013
Participation in TenneT TSO Germany B.V.	375	375
Total	**375**	**375**

TenneT TSO Germany B.V.
The Foundation for the Management of Allocated Funds from the National High-Voltage Grid (hereafter: 'The Foundation') holds a 10% investment recognised at fair value. In order to protect the allocated funds and to ensure their immediate availability upon request from the Dutch regulator a put- and a call option have been emitted at 25 February 2010. The call option with an exercise price of EUR 375 million and a maturity period of ten years entitles TenneT Holding B.V. to acquire the investment from 'The Foundation'. The put option has an exercise price of EUR 375 million and a maturity period of ten years and requires TenneT Orange B.V. to buy the investment from 'The Foundation' upon offer. The obligation of TenneT Orange B.V. is largely covered by means of a guarantee issued by the Dutch government.

The fair value of the participation amounts to EUR 434 million; the fair values of the options are minus EUR 59 million for the call option and nil for the put option.

5.5 Account- and other receivables

Account- and other receivables can be broken down as follows:

(in EUR million)	2014	2013
Trade receivables	33	47
Amounts to be invoiced	64	70
Amounts due from related parties	7	11
Interest receivables	1	1
Other (increase mainly due to events disclosed in note 6.5)	94	4
Total	**199**	**133**

Trade receivables
In respect of the regular trade receivables the credit risk is limited since the majority of potential losses are expected to be compensated in future tariffs. As at 31 December 2014, receivables with an initial value of EUR 3 million (2013: 2) were impaired and fully provided for.

The movement in the provision for impairment of receivables is as follows:

(in EUR million)	2014	2013
Balance at 1 January	2	2
Charge for the year	1	-
Utilised	-	-
Unused amounts reversed	-	-
Total	**3**	**2**

As at 31 December, the ageing analysis of the trade receivables is as follows:

(in EUR million)			Past due but not impaired		
	Total	Neither past due nor impaired	0-30 days	31-60 days	>60 days
2014	**33**	12	2	-	19
2013	**47**	18	4	3	22

Further reference is made to chapter 4 'Financial risk management' for a discussion on how the Group analyses and manages credit risk.

5.6 Cash and cash equivalents

Cash and cash equivalents consist of collateral securities (2014: EUR 38 million; 2013: EUR 37 million), short-term bank deposits and cash at bank (2014: EUR 1 million; 2013: EUR 7 million).

Short-term deposits are made for varying periods between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. Cash at banks earn interest at floating rates based on daily bank deposit rates. For the (undrawn) committed borrowing facilities reference is made to note 5.9.

5.7 Equity

Paid-up and called-up capital
The company's authorised share capital amounts to EUR 500 million (2013: EUR 500 million), divided into one million shares of EUR 500 each. Of these shares, two hundred thousand shares have been issued and paid-up.

Share premium reserve
The share premium reserve relates to a EUR 600 million capital contribution granted by the shareholder in 2011.

Unappropriated result
The profit for 2014 is at the free disposal of the General Meeting of Shareholders.

5.8 Financial assets and liabilities

The current financial assets comprise of deposits made by the Foundation for the Management of Allocated Funds from the National High-Voltage Grid and are not at free disposal. The fair value of the deposits amounted to EUR 12 million (2013: EUR 51 million), with an average effective interest rate of 0.4% (2013: 0.4%). The fair value of these deposits has been calculated using discounted cash flow valuation techniques, on the basis of the market conditions prevailing on the balance sheet date (including interest accrued).

Other financial liabilities relate to collateral securities given by third parties to underwrite trading on energy exchanges and the auctioning of cross-border interconnection capacity.

5.9 Borrowings

Borrowings can be broken down as follows:

(in EUR million)	**Effective Interest rate**	**Maturity**	**Redemption schedule**	**2014**	**2013**
Non-current interest-bearing borrowings					
Loans from shareholder	4.27%	December 2024	At maturity	883	787
Loans from related parties	5.16%	February 2020	At maturity	75	75
Total non-current interest-bearing borrowings				**958**	**862**

TenneT TSO B.V. is financed through TenneT Holding B.V. as per 31 December 2014 the principal amount of the finance facility between TenneT Holding B.V. and TenneT TSO B.V. amounted to EUR 883 million. (2013: EUR 787 million); a maximum facility has not been agreed upon. The facility matures after 10 years and is automatically extended every year for another year, unless agreed upon otherwise. The conditions include a cross default clause. The effective interest rate is equal to the cost of fund of TenneT Holding B.V. with a surcharge of 0.125%. The Group had no other credit facilities as at 31 December 2014 (2013: nil).

5.10 Deferred income

Deferred income can be broken down as follows:

(in EUR million)	**2014**	**2013**
Investment contributions	139	149
Other	1	2
Total	**140**	**151**

Investment contributions relate to a payment from certain third parties for construction of a new substation, a grid connection or increased capacity for its connection. The payment is recognised as revenue over the related asset's useful life.

5.11 Provisions

Provisions can be broken down as follows:

(in EUR million)	Total 2014		Total 2013	
	Current	Non-current	Current	Non-current
Environmental management and decommissioning	2	8	5	5
System services tariffs	128	-	185	-
Personnel	-	7	-	7
Other	1	1	1	1
Total	**131**	**16**	**191**	**13**

The movement in the provisions is as follows:

(in EUR million)	Environmental management and decommissioning	System services tariffs	Personnel	Other	Total
At 1 January 2013	18	243	5	4	**270**
Addition	-	9	2	-	**11**
Utilization	-4	-64	-	-2	**-70**
Release	-5	-3	-	-	**-8**
Imputed interest and discount rate adjustment	1	-	-	-	**1**
At 31 December 2013	**10**	**185**	**7**	**2**	**204**
Addition	3	-	-	-	**3**
Utilization	-3	-55	-	-	**-58**
Release	-	-2	-	-	**-2**
Imputed interest and discount rate adjustment	-	-	-	-	**-**
At 31 December 2014	**10**	**128**	**7**	**2**	**147**

TenneT believes that the recorded provisions reflect its best estimate of the probable outflow of resources. Uncertainty about the assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of these provisions in future periods.

Provision for environmental management and decommissioning
The provision for environmental management and decommissioning serves to cover future obligations to dispose of hazardous substances and to decommission assets. The estimated decommissioning provision involves judgment on the expected remaining life in use of the respective asset. Changes in this estimate will probably not result in an effect on the statement of income, instead it will result in a reclassification in the statement of financial position. A discount rate of 4% is applied to calculate the provision.

System services tariffs
TenneT charges electricity consumers a fee for system services performed by TenneT. Resulting from a change in law, the court in the Netherlands concluded in the course of 2012 that only consumers with a direct connection to a grid maintained by a TSO are required to pay a system services fee in the period prior to 1 July 2011. As a result consumers without a direct grid connection unjustifiably paid a fee for system services to TenneT in the past years. Therefore, TenneT is obliged to repay the unjustified system services fees. The exact amount to be repaid is uncertain and depends, amongst others, on the usage of the consumer in the past and the nature and legal structure of each individual consumer.

Personnel provision
The Group has future liabilities under the Collective Labour Agreement involving the payment of salary-related bonuses to long-serving and retiring employees on their retirement date. The size of the associated provision has been calculated on the

basis of actuarial principles. The main assumptions made in this context concern the annual salary increase of 1.0% in the Netherlands, an age-dependent retention rate and a discount rate of 4.0%.

5.12 Account- and other payables

Trade and other payables can be broken down as follows:

(in EUR million)	**2014**	**2013**
Accounts payable	71	34
Payables to group companies	3	8
Invoices to be received	21	81
Taxation and social security contributions	5	7
Other	27	15
Total	**127**	**145**

6. Miscellaneous

6.1 Off-balance sheet rights and obligations

Off-balance sheet rights and obligations consist of the following categories:

(in EUR million)	**2014**	**2013**
Off balance sheet obligations:		
(Long-term) financial obligations	284	229
Grid related commitments	999	870
Operating leases	81	85
Conditional obligations	2	18
Other off-balance sheet commitments	6	-
Total off balance sheet obligations	**1,372**	**1,202**
Off balance sheet rights:		
Conditional rights	113	94
Government guarantees received	300	300
Total off balance sheet rights	**413**	**394**

(Long-term) financial obligations
At 31 December 2014, external commitments totalling EUR 281 million (2013: EUR 227 million) had been entered into with regard to the purchase of tangible fixed assets. TenneT TSO B.V. has entered into commercial ground lease contracts with the owners of the land on, under or over which TenneT's substations, lines and underground cables are sited or routed. TenneT's annual obligation under these contracts amounts to EUR 3 million (2013: EUR 2 million).

Grid related commitments
The grid related commitments include the unused auction receipts in the Netherlands amounting to EUR 721 million (2013: EUR 664 million). TenneT sells transport capacity through auctions. In the Netherlands the received cash is restricted and must be used to finance investments in interconnectors or to reduce future tariffs.

Operating leases
The total obligation under the operating leases for office premises and vehicles is as follows:

(in EUR million)	**<1 year**	**1-5 years**	**>5 years**	**Total**
At 31 December 2014	9	27	45	**81**
At 31 December 2013	9	27	49	**85**

Conditional obligations
TenneT TSO B.V. issued bank guarantees for an amount of EUR 2 million (2013: EUR 18 million).

Conditional rights
At year-end 2014, TenneT TSO B.V. has received bank guarantees totalling EUR 75 million (2013: EUR 66 million) with respect to prepayments in relation to investment projects. Parties with programme responsibility have issued bank guarantees totalling EUR 38 million (2013: EUR 28 million) to TenneT TSO B.V. in connection with the latter's maintenance of the energy balance between supply and demand.

Government guarantees received
A written put option – with an exercise price of EUR 375 million and a term of 10 years – obliges TenneT Orange B.V. to purchase the share from the Foundation when it is being offered. TenneT Orange B.V.'s obligation is substantially covered by a guarantee issued by the Dutch State for an amount of EUR 300 million.

The Group has various other off-balance sheet rights and obligations, which are not sufficiently large to be disclosed separately.

Legal and arbitration proceedings
TenneT believes it suffered damages from certain price fixings. TenneT has held the parties in question liable for losses sustained. As yet, the results hereof are uncertain. TenneT has received claims from customers. A portion of these claims relates to refunds of transmission services, which TenneT believes are unlikely to prevail in court.

6.2 Related parties

For an overview of legal entities that are included in the consolidated financial statements, reference is made to 2.2 'Basis for consolidation'. Furthermore, the following related parties are part of the TenneT Holding Group:

TenneT Holding B.V., Arnhem
Relined B.V., Utrecht
TenneT Orange B.V., Arnhem
TenneT TSO Duitsland B.V., Arnhem
TenneT Duitsland Coöperatief U.A., Arnhem
TenneT Verwaltungs GmbH, Bayreuth
TenneT GmbH & Co. KG, Bayreuth

- TenneT TSO GmbH, Bayreuth
- TenneT Offshore GmbH, Bayreuth
- TenneT Offshore 1. Beteiligungsgesellschaft GmbH, Bayreuth
- TenneT Offshore 2. Beteiligungsgesellschaft GmbH, Bayreuth
- TenneT Offshore 4. Beteiligungsgesellschaft GmbH, Bayreuth
- TenneT Offshore 7. Beteiligungsgesellschaft GmbH, Bayreuth
- TenneT Offshore 8. Beteiligungsgesellschaft GmbH, Bayreuth
- TenneT Offshore 9. Beteiligungsgesellschaft GmbH, Bayreuth
- TenneT Offshore Dolwin 3 Beteiligungs GmbH & Co. KG, Bayreuth
- TenneT Offshore Dolwin 3 GmbH & Co. KG, Bayreuth
- TenneT Offshore Dolwin 3 Verwaltungs GmbH, Bayreuth
- DC Netz GmbH, Bayreuth
- DC Netz BorWin3 GmbH, Bayreuth
- DC Netz BorWin4 GmbH, Bayreuth
- DC Netz DolWin3 GmbH, Bayreuth
- DC Netz HelWin1 GmbH, Bayreuth
- DC Netz SylWin2 GmbH, Bayreuth
- DC Nordseekabel Beteiligungs GmbH
- DC Nordseekabel Management GmbH
- DC Nordseekabel GmbH & Co KG

TransTenneT B.V., Arnhem
TenneT Blue B.V., Arnhem
WL Winet B.V., Maasdijk
APX Holding B.V., Amsterdam

- APX Balancing B.V., Amsterdam
- APX Clearing B.V., Amsterdam
- APX Commodities Ltd., Nottingham, UK
- APX Power B.V., Amsterdam
- APX Shipping B.V., Amsterdam
- APX Staffing B.V., Amsterdam
- Belpex S.A., Brussels, Belgium

NOVEC B.V., The Hague

- Omroepmasten B.V., Vianen
- Duvekot Rentmeesters B.V., Bathmen

NLink International B.V., Arnhem

- BritNed Development Ltd., London, UK

In addition, the following related parties are identified:

The Dutch State
The parent company TenneT Holding B.V. is owned by the Dutch State, which owns 100% of the company's shares.

Open Tower Company B.V.
Open Tower Company B.V. is deemed a related party because it is an indirect participation of the parent company.

Mobile Radio Networks Vehicle B.V.
Mobile Radio Networks Vehicle B.V. is deemed a related party because it is an indirect participation of the parent company.

No material transactions with related parties, other than already disclosed, have taken place in 2013. Transactions that did take place were made under normal commercial terms and conditions.

6.3 Key personnel remuneration

The remuneration is broken down in note 4.2.2.

6.4 Ratios

TenneT TSO B.V. is required by law to disclose information regarding the following (solvency) ratio's at the end of every financial year:

Ratio	**Requirement**	**2014**	**2013**	**2012**
A	≥ 1.7	5.7	4.9	1.9
B	≥ 2.5	10.4	7.3	6.7
C	≥ 11%	20%	25%	18%
D	≤ 70%	43%	45%	55%

The above mentioned ratio's are calculated as follows:

A: operating profit divided by the gross finance expenses on loans

B: the sum of net profit, depreciation, amortisation, deferred taxes, other non monetary costs (movement provisions) and gross finance expenses divided by the gross finance expenses

C: the sum of net profit, depreciation, amortisation, deferred taxes, other non monetary costs (movement provisions) divided by the total liabilities

D: the total liabilities divided by the sum of total liabilities and equity including minority interest and preference shares

6.5 Events after the balance sheet date

TenneT has acquired a part of the Dutch national high voltage grid in 'Zuid-Holland' that was still owned by one of the DSO's (Stedin) because for this grid a cross border lease agreement was still effective. TenneT has acquired this part of the grid for an amount of EUR 80 million. The agreement has an effective date of 1 January 2015. The purchase price was paid in advance in December 2014 and is recognised as other receivable.

7 Summary of accounting principles applied

7.1 Summary of significant accounting policies

Business combinations and goodwill
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree’s identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

Goodwill is initially measured at cost and represents the excess of the consideration transferred over TenneT’s interest in the value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the amount of the non-controlling interest in the acquiree.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating unit's (CGU), or Groups of CGUs, that is expected to benefit from the synergies of the combination. Each CGU or Group of CGUs to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level. Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a triggering event.

Where goodwill has been allocated to a CGU and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Segmentation
TenneT TSO's Management Board assesses performance and allocates resources based on underlying financial information instead of information reported in accordance with IFRS. This underlying financial information is based on the principle to recognise regulatory assets and liabilities for all of TenneT’s regulated activities. This implies that amounts resulting from past events and which are allowed or required to be settled in future tariffs are recorded as an asset or liability, respectively.

The accounting principles used for the operating segments differ from IFRS, instead underlying financial information is used. Underlying information involves the matching of regulatory revenues and expenses with each other during a corresponding reporting period. TenneT’s Management Board believes that the presentation of underlying financial information leads to a sound, consistent and transparent financial insight into past and future business developments.

Foreign currencies
The Group’s consolidated financial statements are presented in euros, which is also the parent company’s functional currency. For each entity the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or the dates of the valuation when items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit-and-loss account, except for monetary items that are designated as part of the hedge of the Group’s net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

Distinction between current and non-current
An asset (liability) is classified as current when it is expected to be realized (settled) within 12 months after the balance sheet date.

Offsetting
Assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Revenue recognition

General
Revenue primarily represents the sales value derived from the connection of general capacity and transmission of energy together with the sales value derived from the provision of other services to customers during the year. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made.

Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. Revenue includes an assessment of unbilled connection and transmission services supplied to customers between the date of the last meter reading and the year end. In the situation where the revenue received or receivable exceeds the maximum amount permitted by the regulator and adjustments will be made to future prices to reflect this over-recovery, no liability is recognised since this adjustment relates to the provision of future services. Similarly no asset is recognised in situations where the regulator permits adjustments to be made to future prices in respect of an under-recovery.

Investment contributions
The Group receives fees from certain third parties for construction of a new substation, a grid connection or increased capacity for its connection. At initial recognition, the fee is measured at fair value and recognised as deferred income ("investment contribution") and recognised as revenue over the related asset's useful life.

Finance income
For all financial instruments measured at amortised cost and interest bearing financial assets classified as available for sale, interest income is recorded using the effective interest rate method. The effective interest rate at which estimated discounted future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, are equal to the net carrying amount of the financial asset or liability.

Income taxes
Current income taxes
Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute these amounts are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income. Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of income.

Deferred tax
Deferred tax is recognised using the liability method on temporary differences between the tax bases of assets and liabilities and their respective carrying amounts for financial reporting purposes at the reporting date. Deferred tax liabilities are recognised for all taxable temporary differences, except for taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except for deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off.

Tangible fixed assets
Tangible fixed assets are valued at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the asset and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of the asset are required to be replaced at intervals, such parts are recognised as individual assets with specific useful lives and depreciated accordingly. Likewise, when major maintenance is performed, its cost is recognised in the carrying amount of the asset as a replacement if the recognition criteria are met. All other repair and maintenance costs are recognised in profit or loss as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Depreciation is calculated on a straight-line basis, assuming the useful lives of the various asset types to be as follows:

Estimated useful lives tangible fixed assets		*years*
Substations	Earthing switches, isolating switches, power cut-out switches	35
	Security and control equipment	10
	Power transformers	35
	Capacitor banks	35
	Telecommunications equipment	10
Connections	Pylons/lines	40
	Cables (underground)	40
Other	Office buildings	40
	Office ICT equipment	3-5
	Process automation facilities	5
	Other company assets	5-10
Land (and its preparation for building) is not subject to depreciation		

The residual values, useful lives and methods of depreciation the assets are reviewed at each financial year-end and adjusted prospectively, if appropriate.

An asset is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income when the asset is derecognised.

Borrowing costs
General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. No borrowing costs are capitalised in the situation were borrowing costs are directly compensated in the year of construction.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Leases
Leases in which substantially all of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of income on a straight-line basis over the period of the lease.

Leases in which substantially all of the risks and rewards of ownership are transferred to the lessee are classified as financial leases. Finance leases are capitalised at the lease’s commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the statement of income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The assets acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

Intangible assets
Intangible assets comprise goodwill (see separate section), software, customer contracts and other. Other intangible assets mainly consist of purchased rights to use lands.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenses are reflected in the statement of income in the period in which they are incurred.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised over the estimated useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite useful lives is recognised in the statement of income as the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite useful life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis. Currently, the intangible assets with indefinite useful lives only comprise goodwill.

The useful lives of the various intangible asset types are as follows:

Estimated useful lives intangible assets	*years*
Goodwill	Indefinite
Software	3-5
Customer contracts	10-14
Purchased rights to use land	25-45
Other	5-15

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of income when the asset is derecognised.

Research costs are charged directly against the operating result. Development costs relate to the costs of a new technological development of an asset. Such costs are capitalised as an intangible asset if the project in question is likely to be successful, in view of its commercial and technical feasibility, and if the costs can be reliably measured.

Impairment of non-financial assets
At each reporting date, TenneT assesses whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the asset’s recoverable amount is estimated. The recoverable amount is the higher of an asset’s or cash-generating unit's (CGU) fair value less costs to sell and its value in use. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.
In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. In determining fair value less costs to sell of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used.

The impairment calculation is based on detailed budgets and forecast calculations, which are prepared separately for each of the CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Investments in joint ventures and associates
A joint venture is an arrangement whereby the parties in the arrangement have joint control over the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

An associate is an entity in which the Group has significant influence, but no control. Significant influence is the power to participate in the financial and operating policy decisions of the investee.

Investments in joint ventures and associates are accounted for using the equity method. Under the equity method, the investment in the joint venture/associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group’s share of net assets of the investment since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. The statement of income reflects TenneT’s share of the results of operations of the investment. Any change in other comprehensive income of those investees is presented as part of the Group’s other comprehensive income. In addition, when there is a change recognised directly in the equity of the investment, TenneT's share of any change is recognised in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the investment are eliminated to the extent of the interest in the investment.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in the joint venture/associate. At each reporting date, the Group determines whether there is objective evidence that the investment is impaired. If there is such evidence, the amount of impairment is calculated as the difference between the recoverable amount of the investment and its carrying value. The difference is recognised in the statement of income.

Upon loss of significant influence over the joint venture/associate, any retained investment is valued at fair value. Any difference between the carrying amount of the investment upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in the statement of income.

Financial assets
General
Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or as available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets at initial recognition. All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss. The subsequent measurement of financial assets depends on their classification, which is further set out below. A financial asset is derecognised when the rights to receive cash flows from the asset have expired.

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the statement of income. Financial assets designated upon initial recognition at fair value through profit or loss are designated at their initial recognition date and only if the criteria under IAS 39 are satisfied. The Group has not designated any financial assets at fair value through profit or loss.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the statement of income. The losses arising from impairment are recognised in the income statement in finance costs for loans and in cost of sales or other operating expenses for receivables.

Held-to-maturity investments
Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held to maturity investments are measured at amortised cost using the effective interest rate, less impairment.

Available-for-sale financial investments
Available-for-sale financial investments include equity investments and debt securities. Equity investments classified as available for sale are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available-for-sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the available-for-sale reserve to the statement of income.

Inventories
Inventories are stated at the lower of cost and net realisable value. The cost is determined using the weighted average cost method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable selling expenses.

On an incidental basis, TenneT undertakes projects on behalf of third parties. Such projects are valued at construction cost, i.e. the direct costs of material and labour, plus an allowance for indirect costs, directly attributable subcontracting costs, other external costs and interest incurred during the construction phase. These assets are recognised under work in progress and revenue is recognised after completion of the project.

Cash & cash equivalents
In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. Securities are deposits on collaterals that serve as financial security for auction and energy exchange transactions; a matching debt is recognised to the party that deposited the funds on the collateral. Securities are initially stated at fair value and consequently at amortised cost.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents (as defined above), are presented net of outstanding bank overdrafts.

Non-current assets and liabilities held for sale
Non-current assets held for sale are defined as non-current assets (other than financial instruments or property investments) immediately available for sale and highly likely to be sold within a year. Non-current assets held for sale have been stated at the lower of the asset’s carrying value and fair value less costs to sell.

Financial liabilities
Financial liabilities are classified as borrowings or as financial liabilities at fair value through profit or loss. The Group determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value and, in the case of borrowings, net of directly attributable transaction costs. The financial liabilities include trade and other payables, bank overdrafts, borrowings and derivative financial instruments. The subsequent measurement of financial liabilities depends on their classification, which is further set out below.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of income.

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on liabilities held for trading are recognised in the statement of income.

Borrowings
After initial recognition, interest bearing borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are part of the effective interest rate. The effective interest rate amortisation is included as finance costs in the income statement.

Provisions

General
Provisions are recognised when the Group has a legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and when the amount can be reliably estimated. The provisions are provided at the present value of estimated cash flows. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the liability. The interest unwinding is recognised in the statement of income as a finance cost. The estimated future costs are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are recognised in the statement of income.

Environmental management provisions
The provision for environmental management serves to cover the costs associated with the disposal of hazardous substances of high-voltage connections and underground cables. Environmental management costs are provided at the present value of expected costs settle the obligation using estimated cash flows. The additions to the provision are recognised in the statement of income.

Decommissioning provisions
The provision for decommissioning serves to cover the costs associated with the decommissioning of abandoned high-voltage connections and underground cables. Decommissioning costs are provided at the present value of expected costs to settle the obligation using estimated cash flows and are recognised as part of the cost of the particular asset. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied for existing obligations are added to or deducted from the cost of the asset. Estimated future costs for decommissioning obligations arising after the related asset is brought into use are recognised in the statement of income.

Personnel provisions
Provisions have been set up to cover the cost of special personnel benefit schemes with liabilities that existed prior to the balance sheet date. The schemes in question are redundancy schemes, long-service bonus schemes and health insurance premium schemes. The amounts set aside to cover health insurance premium and bonus schemes have been calculated in accordance with actuarial principles. Any actuarial gains/losses are recognised in the statement of income.

Pension provisions
TenneT operates a number of pension and pension-related schemes for the benefit of current and former personnel. The pensions of the personnel are accounted for as a defined contribution plan. The pensions are administered by the ABP Pension Fund, which is a multi-employer scheme. ABP has indicated that it is unable to provide company-specific information of the kind required by IAS 19R for defined-benefit pension schemes; therefore this scheme is treated as if it were a defined contribution scheme. Payments to defined contribution plans are recognised in the period to which they relate.

7.2 Change in accounting policies

The following new standards and amendments are effective as of 1 January 2014:

• IAS 32 'Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32'
• IAS 39 'Novation of Derivates and Continuation of Hedge Accounting - Amendments to IAS 39'

IAS 32 'Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32'

The amendments to IAS 32 clarify that rights to offset must not only be legally enforceable in the normal course of business, but must also be enforceable in the event of default and the event of bankruptcy or insolvency of all of the counterparties to the contract, including the reporting entity itself. The amendments also clarify that rights to offset must not be contingent on a future event. This amendment did not affect TenneT's financial position, performance or disclosures since the Group did not have any offsetting arrangements

IAS 39 'Novation of Derivates and Continuation of Hedge Accounting - Amendments to IAS 39'

The amendments to IAS 39 provide an exception to the requirement to discontinue hedge accounting in certain circumstances in which there is a change in counterparty to a hedging instrument in order to achieve clearing for that instrument. Currently, the Group does not hold any derivative instruments. Consequently, this amendment did not affect TenneT's financial position, performance or disclosures.

Other Changes

The classification of financial position items has been reassessed and as a result certain items have been reclassified in the statement of financial position. Originally reported comparative figures have been reclassified in order to conform with current year's presentation.

7.3 IFRS Standards issued but not yet effective

New standards, amendments and interpretations are issued and effective on or after January 1, 2015 or later periods, and the Group has not yet early adopted them. The following upcoming standards are the most relevant to the Group:

• IFRS 9 'Financial instruments'
• IFRS 15 ' Revenue from contracts with customers

IFRS 9, ‘Financial instruments’, addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments and requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity’s own credit risk is recorded in other comprehensive income rather than the profit-and-loss account, unless this creates an accounting mismatch. The adoption of this new standard will have limited impact on the Group's disclosures to the financial statements, but will not affect TenneT's financial position nor performance. The effective date of this new standard is 1 January 2018.

IFRS 15, 'revenue from contracts with customers', introduces a new five-step model to be applied to revenue from contracts with customers and provides a more structured approach to measuring and recognising revenue. In accordance with this new standard revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The effective date of this new standard is 1 January 2017. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

Changes to other standards, following from amendments, interpretations and the annual improvement cycles, do not have a material impact on the Group’s financial statements. As such these are not further described.

COMPANY FINANCIAL STATEMENTS
TENNET TSO B.V.
2014

Company statement of financial position at 31 December (before profit appropriation)

(in EUR million)

Assets	Note	2014	2013
Non-current assets			
Intangible assets	9.1	36	29
Tangible fixed assets	9.2	2,263	2,055
Investments in subsidiaries	9.3	1,000	1,000
Investments in associates		13	12
Other financial assets	9.4	1	-
Total non-current assets		**3,313**	**3,096**
Current assets			
Inventories		5	5
Account- and other receivables	9.5	496	490
Cash and cash equivalents	9.6	38	37
Total current assets		**539**	**532**
Total assets		**3,852**	**3,628**

Company statement of financial position at 31 December (before profit appropriation)
(in EUR million)

Equity and liabilities	Note	2014	2013
Equity			
Paid-up and called up capital	9.7	100	100
Share premium reserve	9.7	600	600
Retained earnings	9.7	1,314	1,091
Unappropriated result	9.7	149	223
Total equity		**2,163**	**2,014**
Non-current liabilities			
Borrowings	5.9	883	787
Deferred income	9.8	107	117
Deferred tax liability	9.9	262	239
Provisions	9.10	16	13
Total non-current liabilities		**1,268**	**1,156**
Current liabilities			
Account- and other payables	9.11	252	230
Other financial liabilities	9.12	38	37
Provisions	9.10	131	191
Total current liabilities		**421**	**458**
Total equity and liabilities		**3,852**	**3,628**

Company statement of income for the year 2014

(in EUR million)

	2014	2013
Profit TenneT TSO B.V. after income tax	149	224
Result from Group companies after income tax	-	-1
Profit for the year	**149**	**223**

Notes to the company financial statements

8 Summary of accounting policies applied

8.1 General basis for preparation

The company financial statements for TenneT TSO B.V. have been prepared in accordance with the provisions of Part 9, Book 2, of the Netherlands Civil Code. The same principles governing valuation and the determination of results (including the principles governing the classification of financial instruments as equity or liability) have been applied in compilation of the company financial statements as in compilation of the consolidated financial statements, as permitted by Article 2:362, clause 8, of the Civil Code.

Pursuant to Article 402, Book 2, of the Netherlands Civil Code, the company profit-and-loss account has been presented in abridged form.

8.2 Investments in subsidiaries

In this company financial statements the investments in subsidiaries are measured at net asset value. The net asset value of a participating interest is determined by valuing the assets, provisions and liabilities and calculating the result using the accounting principles applied to the consolidated financial statements. These accounting principles have been changed; refer to note 3.3 of the consolidated financial statements in respect of the effect on net equity and result.

When the company's share of losses in an investment equals or exceeds its interest in the investment, (including separately presented goodwill or any other unsecured non-current receivables, being part of the net investment), the company does not recognise any further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the investment. In such case the company will recognise a provision.

9 Items of the company statement of financial position

9.1 Intangible assets

The carrying value of the intangible assets can be specified as follows:

(in EUR million)	Software	Other Intangible assets	Total
Cost:			
At 1 January 2013	71	14	85
Additions	14	-	14
At 31 December 2013	**85**	**14**	**99**
Additions	23	1	24
At 31 December 2014	**108**	**15**	**123**
Amortisation and impairment			
At 1 January 2013	52	3	55
Amortisation for the year	15	-	15
At 31 December 2013	**67**	**3**	**70**
Amortisation for the year	17	-	17
At 31 December 2014	**84**	**3**	**87**
Net Book value:			
At 1 January 2013	19	11	30
At 31 December 2013	18	11	29
At 31 December 2014	24	12	36

9.2 Tangible fixed assets

(in EUR million)	High-voltage substations	High-voltage connections	Other assets	Assets under construction	Total
Cost					
At 1 January 2013	883	756	91	536	2,266
Additions	17	198	43	83	341
Disposals	-	-2	-	-	-2
At 31 December 2013	**900**	**952**	**134**	**619**	**2,605**
Additions	-	-	-	298	298
Transfers	162	122	51	-334	-
Disposals	-	-	-5	-	-5
At 31 December 2014	**1,062**	**1,074**	**179**	**583**	**2,898**
Depreciation and impairment					
At 1 January 2013	249	193	40	-	482
Depreciation for the year	34	29	7	-	70
Transfers	-20	20	-	-	-
Disposals		-2	-	-	-2
At 31 December 2013	**263**	**240**	**47**	**-**	**550**
Depreciation for the year	43	33	14	-	90
Disposals	-	-	-5	-	-5
At 31 December 2014	**306**	**273**	**56**	**-**	**635**
Net Book value:					
At 1 January 2013	634	563	51	536	1,784
At 31 December 2013	637	712	87	619	2,055
At 31 December 2014	756	801	123	583	2,263

9.3 Investments in subsidiaries

The movement in the investments in subsidiaries is as follows:

(in EUR million)	2014	2013
Balance at 1 January	1,000	1,001
Share in result	-	-1
Balance at 31 December	**1,000**	**1,000**

The investments in subsidiaries relate to the legal entities included in the consolidation as disclosed in chapter 1 of the consolidated financial statements.

9.4 Other financial assets

Other financial assets can be broken down as follows:

(in EUR million)	2014	2013
Receivables from subsidiaries	1	-
Total	**1**	-

Receivables from subsidiaries comprise intercompany receivables from the group companies included in the consolidated financial statements. A list of these companies can be found under chapter 1 of the consolidated financial statements. The agreed interest rate is Euribor +0.55%.

9.5 Account- and other receivables

Account- and other receivables can be broken down as follows:

(in EUR million)	2014	2013
Receivables from related parties and subsidiaries	388	369
Trade receivables	33	47
Amounts to be invoiced	64	70
Other	11	4
Total	**496**	**490**

9.6 Cash and cash equivalents

The cash and cash equivalents consist of collateral securities amounting to EUR 38 million (2013: EUR 37 million).

9.7 Equity

The statement of changes in equity and disclosure to that statement are included in the consolidated financial statements.

In addition to the statement of changes in equity, a legal reserve was formed within shareholder equity for a revaluation of EUR 86 million (2013: EUR 96 million) and a legal reserve relating to withheld results from associates of EUR 6 million (2013: EUR 6 million). These reserves were charged against retained earnings.

The revaluation reserve serves to cover the revaluation of tangible fixed assets within TenneT TSO B.V.'s national high-voltage grid. Following the implementation of IFRS on 1 January 2004, the fair value exception provided for in IFRS 1 has been applied. This (once-only) exception allows tangible fixed assets to be stated at their fair value on the transition date. This figure is subsequently used as the 'deemed cost price'. The size of the revaluation reserve corresponds to that part of the restated value of the tangible fixed assets resulting from application of the fair value exception, less the deferred tax liability. The revaluation reserve and the reserve for participating interests are not freely distributable.

9.8 Deferred income

The deferred income can be broken down as follows:

(in EUR million)	2014	2013
Investment contributions	106	116
Other	1	1
Total	**107**	**117**

9.9 Deferred tax liability

Deferred taxes relate to the following:

(in EUR million)	Company statement of financial position	
	2014	2013
Auction receipts	-180	-166
Investment contributions	-78	-75
Tariffs to be settled	24	37
Accelerated depreciation for tax purposes	-31	-38
Provisions recognised for tax purposes	3	3
Net deferred tax assets/(liabilities)	**-262**	**-239**

For further disclosure regarding income tax we refer to the consolidated financial statements (note 4.4).

9.10 Provisions

For the movements in provisions we refer to the consolidated financial statements (note 5.11).

9.11 Account- and other payables

Account- and other payables are detailed as follows:

(in EUR million)	2014	2013
Payables to subsidiaries	128	98
Accounts payable	71	32
Taxes and social securities	5	7
Invoices to be received	21	81
Other	27	12
	252	**230**

Payables to subsidiaries comprise intercompany payables to the group companies included in the consolidation of the consolidated financial statements. A list of these companies can be found chapter 1 of the consolidated financial statements.

9.12 Other financial liabilities

Other financial liabilities relate to collateral securities given by third parties to underwrite trading on energy exchanges and the auctioning of cross-border interconnection capacity.

10 Miscellaneous

10.1 Declaration of liability

See chapter 1 of the consolidated financial statements for further disclosure.

10.2 Related parties

Legal entities that are included in the consolidated financial statements (chapter 1 Basis for consolidation) are regarded as related parties. Also, reference is made to note 6.2 of the consolidated financial statements.

10.3 Key management compensation

The key management compensation is broken down in note 4.2.2 of the consolidated financial statements.

10.4 Signing of the financial statements

Arnhem, 10 March 2015

Management Board TenneT TSO B.V.

O. Jager

B.G.M. Voorhorst

11 Other information

Profit appropriation

The appropriation of profits is governed by Section 38.3 of the Articles of Association, which states:
'Subject to approval by the Supervisory Board, the Management Board may reserve a portion of any profit that may remain after application of the provisions of clause 2, sufficient in the Management Board’s view to finance capital expenditure to support fulfilment of the company’s statutory duties as grid administrator, such as maintenance, expansion and environmental management. Any profit which is not thus reserved shall be at the free disposal of the General Meeting of Shareholders. When calculating the amount of profit to be paid out on each share, account shall be taken only of the sum of the obligatory call on the nominal value of the shares. In the event of a tied vote regarding the distribution or reservation of profits, the profit to which the proposal relates shall be reserved'.

The appropriation of the 2014 profit is at the free disposal of the General Meeting of Shareholders and has not been recorded in the financial statements.

Dividend proposal

The Management Board proposes to pay a dividend of EUR 41 million and add the remainder of EUR 108 million of the profit for the financial year 2014 to the other reserves. These amounts have not been processed in these financial statements.

Events after the reporting period

No events after the balance sheet date requiring disclosure have occurred.

Independent auditor's report

The independent auditor's report is included on the next page.

Independent auditor's report

To: the Shareholder of TenneT TSO B.V.

Report on the financial statements
We have audited the accompanying financial statements 2014 of TenneT TSO B.V., Arnhem. The financial statements include the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2014, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and the notes, comprising a summary of significant accounting policies and other explanatory information. The company financial statements comprise the company statement of financial position as at 31 December 2014, the company statement of income for the year then ended and the notes, comprising a summary of accounting policies and other explanatory information.

Management Board's responsibility
The Management Board is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the Report by the Management Board in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Management Board is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management Board, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the consolidated financial statements
In our opinion, the consolidated financial statements give a true and fair view of the financial position of TenneT TSO B.V. as at 31 December 2014, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code.

Opinion with respect to the company financial statements
In our opinion, the company financial statements give a true and fair view of the financial position of TenneT TSO B.V. as at 31 December 2014, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements
Pursuant to the legal requirement under Section 2: 393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the Report by the Management Board, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2: 392 sub 1 at b-h has been annexed. Further we report that the Report by the Management Board, to the extent we can assess, is consistent with the financial statements as required by Section 2: 391 sub 4 of the Dutch Civil Code.

Arnhem, 10 March 2015
Ernst &Young Accountants LLP
Original has been signed by A.E Wijnsma